

GENERAL SERVICES ADMINISTRATION

[NOTICE-MVA-2015-01; Docket No. 2015-0002; Sequence No. 4]

Notice of a Class Deviation to Address Commercial Supplier

Agreement Terms Inconsistent with Federal Law

AGENCY: Office of Government-wide Policy, General Services Administration.

ACTION: Request for Information (RFI).

SUMMARY: The Office of Acquisition Policy is requesting feedback on a proposed class deviation to the Federal Acquisition Regulation (FAR) and the General Services Acquisition Regulation (GSAR) to address common Commercial Supplier Agreement terms that are inconsistent with or create ambiguity with Federal law. This class deviation will go into effect forty-five (45) days from the date of publication of this RFI in the Federal Register, after considering comments received.

DATES: Comments: Interested parties should submit written comments to the Regulatory Secretariat Division at one of the addresses shown below on or before **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

ADDRESSES: Submit comments in response to Notice-MVA-2015-01 by any of the following methods:

- Regulations.gov: <http://www.regulations.gov>. Submit comments via the Federal eRulemaking portal by searching for "Notice-MVA-2015-01". Select the link "Comment Now" that corresponds with "Notice-MVA-2015-01" and follow the instructions provided on the screen. Please include your name, company name (if any), and "Notice-MVA-2015-01" on your attached document.

- Mail: General Services Administration, Regulatory Secretariat (MVCB), ATTN: Ms. Flowers/Notice-MVA-2015-01, 1800 F Street NW., 2nd Floor, Washington, DC 20405-0001.
Instructions: Please submit comments only and cite Notice-MVA-2015-01 in all correspondence related to this case. All comments received will be posted without change to <http://www.regulations.gov>, including any personal and/or business confidential information provided.

FOR FURTHER INFORMATION CONTACT: Mr. James Tsujimoto, Program Analyst, Acquisition Policy Division, at telephone 202-208-3585 or email james.tsujimoto@gsa.gov.

SUPPLEMENTARY INFORMATION:

BACKGROUND

GSA defines Commercial Supplier Agreements as terms and conditions that are customarily offered to the public by vendors of supplies or services that meet the definition of "commercial item" and are intended to create a binding

legal obligation on the end user. Commercial Supplier Agreements are particularly common in information technology acquisitions, including acquisitions of commercial computer software and commercial technical data, but they may apply to any supply or service.

Customarily, commercial item supplies and services are offered to the public under standard agreements that may take a variety of forms, including license agreements, terms of service (TOS), terms of sale or purchase, and similar agreements. These customary, standard Commercial Supplier Agreements typically contain terms and conditions that make sense when the purchaser is a private party but are inappropriate when the purchaser is the Federal Government.

The existence of Federally-incompatible terms in contractors' standard Commercial Supplier Agreements has long been recognized in FAR 27.405-3(b), which is limited to the acquisition of commercial computer software. This clause advises contracting officers to exercise caution when accepting a contractor's terms and conditions. However, the use of Commercial Supplier Agreements is not limited to information technology acquisitions; Commercial Supplier Agreements have become ubiquitous in a broad variety of contexts, from travel to telecommunications to

financial services to building maintenance systems, including purchases below the simplified acquisition threshold.

Discrepancies between Commercial Supplier Agreements and Federal law or the Government's needs create recurrent points of inconsistency. Below are several examples of incompatible clauses that are commonly found in Commercial Supplier Agreements:

- Jurisdiction or venue clauses may require that disputes be resolved in a particular state or Federal court. Such clauses conflict with the sovereign immunity of the US Government and cannot apply to litigation where the US Government is a defendant because those disputes must be heard either in US District Court (28 U.S.C. § 1346) or the US Court of Federal Claims (28 U.S.C. §1491).
- Automatic renewal clauses may automatically renew or extend contracts unless affirmative action is taken by the Government. Such clauses that require the obligation of funds prior to appropriation violate the restrictions of the Anti-Deficiency Act, 31 U.S.C. § 1341(a)(1)(B).

- Termination clauses may allow the contractor to unilaterally terminate a contract if the Government is alleged to have breached the contract. Termination clauses and other clauses that permit substantive unilateral modification by the contractor are not permitted.

Additionally, Government contracts are subject to the Contract Disputes Act of 1978 (41 U.S.C. §§ 601-613). The Contract Disputes Act requires a certain process for resolving disputes, including terminations, and that the "Contractor shall proceed diligently with performance of this contract, pending final resolution" under the terms of the FAR Disputes clause at 52.233-1.

As a result, Industry and Government representatives must undergo lengthy and costly contract term negotiations in order to avoid Commercial Supplier Agreement terms that conflict or are incompatible with Federal law. Both sides may expend considerable resources on legal counsel and negotiations before coming to agreement.

Moreover, the current order of precedence contained in the commercial item clause at FAR 52.212-4 potentially allows commercial agreements to supersede the terms of Federal contracts, especially in those areas where Federal

law is implicated indirectly. As a result, industry and Government representatives must spend significant time and resources tailoring Commercial Supplier Agreements to comply with Federal law.

DISCUSSION

GSA intends to issue a class deviation to clarify the order of precedence in the commercial item clause by explaining that the terms of the commercial item clause control in the event of a conflict with a Commercial Supplier Agreement.

The class deviation will also implement standard terms and conditions to minimize the need for negotiating the terms of Commercial Supplier Agreements on an individual basis. The new clause will make unenforceable any conflicting or inconsistent Commercial Supplier Agreement terms that are addressed in the class deviation, so long as an express exception is not authorized elsewhere by Federal statute. GSA has identified fifteen (15) points of inconsistency with Federal law that are addressed by this class deviation. Below is a list of the fifteen points of inconsistency and a summary of how they will be addressed by the class deviation:

1. Definition of contracting parties: Contract agreements are between the commercial supplier or licensor

and the U.S. Government. Government employees or persons acting on behalf of the Government will not be bound in their personal capacity by the Commercial Supplier Agreement.

2. Contract formation: Commercial Supplier

Agreements may be integrated into a contract, so long as the terms are included verbatim and are not incorporated by reference. The terms of the deviated clause and other identified elements will supersede any conflict with the Commercial Supplier Agreement. This order of precedence will allow for the incorporation of Commercial Supplier Agreements, with certain clauses being stricken as unenforceable, without the need to individually negotiate agreements. "Click-wrap", "Browse-wrap" and other such mechanisms that purport to bind the end-user will not bind the Government or any Government authorized end-user.

3. Patent indemnity (contractor assumes control of proceedings): Any clause requiring that the commercial supplier or licensor control any litigation arising from the government's use of the contractor's supplies or services is deleted. Such representation when the Government is a party is reserved by statute for the U.S. Department of Justice.

4. Automatic renewals of term-limited agreements:

Due to Anti-Deficiency Act restrictions, automatic contract renewal clauses are impermissible. Any such Commercial Supplier Agreement clauses are unenforceable.

5. Future fees or penalties: Future fees - such as

attorney fees, cost or interest - may only be awarded against the U.S. Government when expressly authorized by statute (e.g. Prompt Payment Act).

6. Taxes: Any taxes or surcharges that will be

passed along to the Government will be governed by the terms of the underlying contract. The cognizant contracting officer must make a determination of applicability whenever such a request is made.

7. Payment terms or invoicing (late payment): Any

Commercial Supplier Agreement terms that purport to establish payment terms or invoicing requirements that contradict the terms of the Government contract will be unenforceable. Discrepancies found during an audit must comply with the invoicing procedures from the underlying contract.

8. Automatic incorporation/deemed acceptance of

third party terms: No third party terms may be incorporated into the contract by reference. Incorporation of third party terms after the time of award may only be performed

by bilateral contract modification with the approval of the cognizant contracting officer.

9. State/foreign law governed contracts: Clauses that conflict with the sovereign immunity of the U.S. Government cannot apply to litigation where the US Government is a defendant because those disputes must be heard either in US District Court or the US Court of Federal Claims. Commercial Supplier Agreement terms that require the resolution of a dispute in a forum other than that expressly authorized by Federal law are deleted. Statutes of limitation on potential claims shall be governed by U.S. Government law.

10. Equitable remedies, injunctions, binding arbitration: Equitable remedies, injunctive relief and binding arbitration clauses may not be enforced unless explicitly authorized by agency guidance or statute.

11. Unilateral termination of Commercial Supplier Agreement by supplier: Commercial suppliers may not unilaterally terminate or suspend a contract unless the supplies or services are generally withdrawn from the commercial market. Remedy from contractual breach by the Government must be pursued under the Contract Disputes Act.

12. Unilateral modification of Commercial Supplier Agreement by supplier: Unilateral changes of the

Commercial Supplier Agreement are impermissible and any clause authorizing such changes is unenforceable.

13. Assignment of Commercial Supplier Agreement or Government contract by supplier: The contract, Commercial Supplier Agreement, party rights and party obligations may not be assigned or delegated without express Government approval. Payment to a third party financial institution may still be reassigned.

14. Confidentiality of Commercial Supplier Agreement terms and conditions: The content of the Commercial Supplier Agreement and the final contract pricing may not be deemed confidential. The Government may retain other marked confidential information as required by law, regulation or agency guidance, but will appropriately guard such confidential information.

15. Audits (automatic liability for payment): Discrepancies found during an audit must comply with the invoicing procedures from the underlying contract. Disputed charges must be resolved through the Disputes clause. Any audits requested by the commercial supplier or licensor will be performed at supplier or licensor's expense.

This class deviation will apply to all new awards for GSA acquisitions for commercial supplies or services.

Existing contracts will be required to incorporate the new terms whenever an option period is exercised or the contract is otherwise modified.

This effort will reduce risk by uniformly addressing common unacceptable Commercial Supplier Agreement terms, facilitate efficiency and effectiveness in the contracting process by reducing the administrative burden for the Government and industry, and promote competition by reducing barriers to industry, particularly small businesses.

Dated: March 17, 2015.

Jeffrey A. Koses,
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